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### Personal Services Business

Income Tax Act s. 125(7), s. 123.4(1)

A personal services business carried on by a corporation in a taxation year means a business of providing services where

- a. an individual who performs services on behalf of the corporation (an "incorporated employee"), or
- b. a person related to the incorporated employee

is a [specified shareholder](#) of the [corporation](#), provides services to another entity, and the relationship between the provider of the service and the entity receiving the service could reasonably be regarded as an employee/employer relationship. However, if the corporation employs more than 5 full-time employees throughout the year it will not be considered to be carrying on a personal services business.

#### Limited Deductions

S. 18(1)(p) of the Income Tax Act restricts the deduction of expenses of a personal services business of a corporation to the following allowable deductions:

- i. the salary, wages or other remuneration paid in the year to an incorporated employee of the corporation
- ii. the cost of any benefit or allowance provided to an incorporated employee
- iii. any amount expended in connection with the selling of property or the negotiating of contracts by the corporation, as long as the amount would have been deductible if it had been expended by the incorporated employee under a contract of employment that required the employee to pay the amount, and
- iv. legal expenses incurred by the corporation in collecting amounts owing to it on account of services rendered

The above amounts are only deductible by a personal services business if they would be deductible by a business other than a personal services business.

#### Personal Services Business Corporate Tax Rate

A personal services business is not eligible for the [small business deduction](#), and thus pays tax at full [corporate tax rates](#). For taxation years that begin after October 31, 2011, a PSB is also not eligible for the general rate reduction, resulting in a federal corporate tax rate of **28%**.

[Bill C-48 Technical Tax Amendments Act 2012](#), which received Royal Assent on June 26, 2013, amended s. 123.4(1) of the Income Tax Act, to provide that the **general rate reduction of 13% (for 2012 and later years) does not apply to the portion of the taxable income of a corporation earned in the year from a personal service business**. This amendment applies to taxation years that begin after October 31, 2011. The result is a federal corporate tax rate of 28% instead of 15%. These proposed changes to the Income Tax Act are included by the Department of Finance in [Legislative proposals introduced October 31, 2011 and October 24, 2012 Notice of Ways and Means Motion](#).

The owner of a personal service business would have to do some analysis to determine whether any profits should be left in the corporation, or should all be paid out as salaries/bonuses. Our [Canadian Tax Calculators](#) can do the calculation of the personal taxes under different scenarios.

Canada Revenue Agency information:

### TurboTax® Official Site

[turbotax.intuit.ca/Best-Tax-Program](http://turbotax.intuit.ca/Best-Tax-Program)

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Revised: August 26, 2013

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